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LIGHTS - Innovation/Entrepreneurship

Leading successful transformation: How to design a corporate transformation portfolio

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Abstract

Corporate leaders recognize the imperative of transforming their firms; nevertheless, achieving successful corporate transformation presents significant challenges. In this impact paper, we introduce the Four-I-Framework of corporate transformation and elucidate how corporate leaders can design an effective Corporate Transformation Portfolio. This paper provides guidance for leaders in leading corporate transformation successfully.

Keywords: Corporate transformation, Four-I-Framework, Corporate Transformation Portfolio

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***“You cannot overtake fifteen cars when it's sunny weather, but you can when it is raining.”
(Ayrton Senna)***

In conferences, a familiar statistic echoes: 80% of corporations established before 1980 have disappeared, with an additional 17% facing uncertain futures within the next five years. While debates persist regarding the precision of these numbers, they underscore a reality that corporate leaders cannot afford to ignore. Corporations must navigate a swiftly evolving landscape, characterized by the rapid emergence of transformative technologies (e.g., AI, robotics, biotech) and shifting consumer preferences (e.g., sustainability, evolving lifestyles). Failure to adapt can result in a fate akin to that of Kodak, Nokia, and Polaroid—once titans of industry that eventually became laggards (Seckler, 2019).

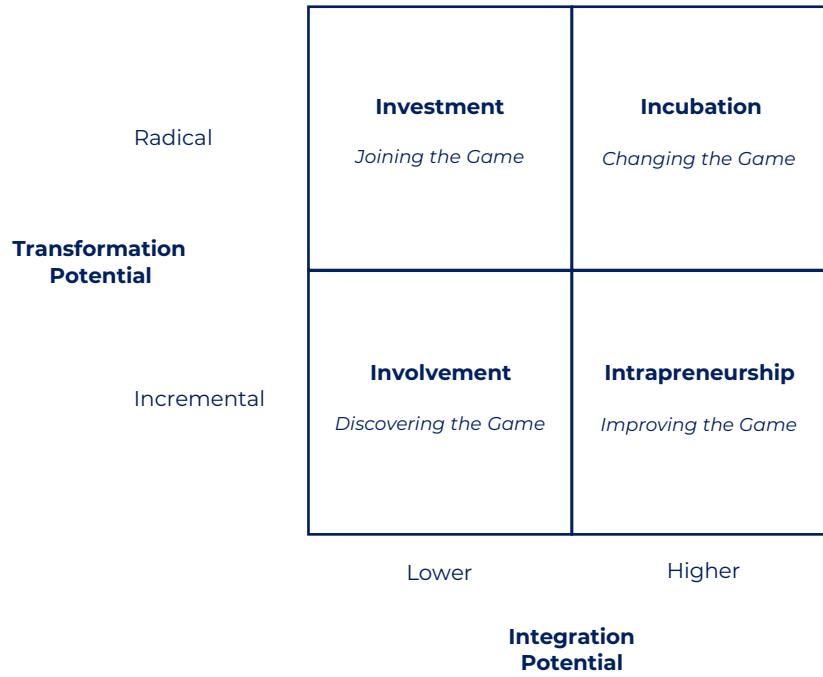
The intriguing insight garnered from years of scrutinizing corporate failures is that the leadership teams at Kodak, Nokia, Polaroid, and others recognized the imperative for transformation (Habersang, Küberling-Jost, Reihlen, & Seckler, 2019). The crux of their eventual downfall lay in their inability to adapt their established business models, which had hitherto underpinned their success. Hence, the key question confronting corporate leaders is not whether to embark on transformation, but rather how to assess and design it effectively!

The objective of this impact paper is to delineate a framework that empowers leaders to identify the initiatives at their disposal for driving corporate transformation and to design a corporate transformation portfolio. By corporate transformation, we refer to corporate activities of sensing and seizing novel opportunities and to transform the firm (e.g., digitalization initiatives, sustainability initiatives). We present four foundational corporate transformation strategies, within the Four-I-Framework of Corporate Transformation. Building upon this framework, we provide a systematic approach for designing a corporate transformation portfolio that lets corporates thrive into the future.

The arrows in the quiver: the Four-I-Framework of corporate transformation

Corporate leaders possess four arrows in their quiver when it comes to corporate transformation. We term them as: Incubation, Intrapreneurship, Investments, and Involvement (see *Figure 1*, see also Borchers, 2024). All four strategies have the potential for corporates to sense and seize business opportunities and to transform the firm, irrespective of the transformation area (e.g., digitalization, sustainability). They differ along two critical axes. First, they vary in terms of transformation potential, ranging from radical to incremental. Second, they differ in their integration potential, referring to the ease of integrating the initiative into the corporation, which ranges from lower to higher potential. Let us take a closer look at the four arrows.

Figure 1: The Four-I-Framework of corporate transformation



Incubation – Changing the game

What it is?

Incubation, here, denotes Corporate Venture Building (CVB) initiatives designed to nurture promising new business areas from the ground up. These activities have the potential to change the game of the industry. Through incubation, corporations proactively seek to explore new means-end relationships that may have radical transformation potential. As resulting businesses are incubated by the corporation, we consider the integration potential of these ventures to be relatively high. Examples of incubation programs include Bosch GROW Platform, Lufthansa Innovation Hub, DB Schenker Venture Studio, and Körber Digital.

When to use it?

Incubation offers distinct advantages when corporates aim to delve into entirely novel business concepts leveraging corporate assets. It represents a high-risk, high-reward strategy for corporate transformation, necessitating a sustained commitment from corporate leaders. Due to the requirement for domain expertise in unfamiliar domains and entrepreneurial skills often absent in established firms, external support from specialized service providers or independent entrepreneurs is frequently sought (Borchers, 2024).

How to do it?

To increase the probability of success, corporate ventures are frequently freed from certain bureaucratic constraints of the parent company. The aim is to replicate the entrepreneurial atmosphere of a startup as much as feasible. As a result, corporate ventures are often set up as independent limited liability companies, although they are primarily owned by the parent company. External entrepreneurs engaged in these ventures may be offered a share of profits, including potential equity, to motivate their dedication (Borchers, 2024).

Intrapreneurship – Improving the game

What it is?

Intrapreneurship encompasses all efforts aimed at fostering innovation within a corporate entity (Seckler & Borchers, 2021). The integration potential of intrapreneurship initiatives is high, as they are typically explored and implemented by corporate employees. In terms of transformation potential, intrapreneurship activities are especially valuable for promoting continuous improvements. For instance, Siemens collaborated with ESCP Business School to foster an entrepreneurial mindset within the Finance function through the implementation of a market-of-makers format (Braun & Mauer, 2022). Similarly, SwissLife Asset Managers Germany developed an “Innovation Network” comprising multiple initiatives, such as inspiration talks over lunch, providing educational content, and implementing tailor-made intrapreneurship events.

When to do it?

Intrapreneurship initiatives can be used to consistently enhance corporate processes, product, and service offerings, and to empower corporate employees. While the idea of intrapreneurship for improving products and processes is somewhat intuitive, its significance in empowering employees is frequently underestimated. However, this is a misconception. There is growing recognition that intrapreneurship initiatives improve employees' ability to identify business opportunities, develop business ideas, and effectively network within the organization (Stumpf, Seckler, & Borchers, 2021).

How to do it?

While there are numerous approaches to conducting intrapreneurship activities, one particularly effective method is the market-of-makers. This field-tested format harnesses employees' intrinsic motivation to drive change. Through an assessment of employees' resources (asking: who they are, whom they know, what they have) and the challenges they encounter in their daily work, intrapreneurship activities, known as speedboats, are created. These speedboats are then launched within the corporate environment and their impact unfolds over subsequent months, a process referred to as the speedboat regatta (von Delius & Mauer, 2021).

Investments – Joining the game

What it is?

Discussing investments, we are specifically referring to corporate venture capital (CVC) activities. Through CVC, the corporation becomes actively involved in the investment game. CVC enables corporations to respond to emerging technologies in the market, thereby transforming the firm. A critical consideration for CVC investments is whether a startup that has come up with a promising innovation startup can be effectively integrated into the corporation, given its status as an external entity with different systems, cultures, etc. Many corporations have established CVC arms, such as Deutsche Bahn Digital Ventures (DB DV) and Robert Bosch Venture Capital.

When to use it?

CVC is an excellent means to incorporate transformative businesses into the corporate portfolio. It can be seen as a way to manage existing opportunities and risks. It becomes relevant when promising startups have gained traction in the market, and their growth has the potential to significantly impact the corporation's business in the medium term, whether positively or negatively (Borchers, 2024).

How to do it?

Corporate investors usually acquire a minority stake in a growing company, often in the single-digit or lower double-digit percentage range. The aim is to obtain valuable insights into the company's growth trajectory and the pertinent market or technology landscape. At the same time, investors may explore the opportunity to increase their ownership in the startup if it aligns strategically or if there's potential for significant value appreciation, for example through an IPO. However, these startups may have processes and business models that are either too small or incompatible with the corporation's own, rendering short-term partnerships impractical (Borchers, 2024).

Involvement – Discovering the game

What it is?

With involvement activities, corporations can explore novel trends within the markets. Involvement is about discovering the game. It encompasses activities commonly known as venture scouting, corporate venture collaboration, corporate startup partnering, or venture clienting. Initially, involvement is likely to result in more incremental innovations by inspiring novel ways of doing. As involvement is a more collaborative approach, the initial potential for integration into the corporate is lower. Examples of corporates with strong involvement activities include Bosch Siemens Hausgeräte and BMW with its BMW Startup Garage.

When to do it?

Involvement serves as an excellent starting point for companies looking to collaborate with startups, tapping into their innovative capabilities and market insights. Partnering with startups through corporate startup clienting offers a quick and cost-effective initiation, often producing tangible results early in the collaboration. Involvement proves advantageous when processes, business models, and cultures align with or complement each other, alongside the availability of necessary technology in the market (Borchers, 2024).

How to do it?

Involvement can take various forms, from employees attending events or the company sponsoring startup activities, to more intensive engagement such as active collaboration between startups and corporations, as seen in corporate venturing clienting. Creating a successful partnering unit necessitates establishing an effective interface between internal and external operations. This enables corporate units to accurately identify innovation opportunities, facilitates seamless connections with suitable startups by the partnering unit, and ensures smooth and efficient collaboration processes (Borchers, 2024).

Hitting the bullseye: how to design a corporate transformation portfolio

Understanding the arrows in the quiver is only half the battle to hit the bullseye. The crucial question is how to orchestrate the Four-Is effectively. In other words: How do leaders design an effective corporate transformation portfolio that enables their corporation to thrive in the future? To leverage the Four-Is, leaders need to address three core questions (see *Figure 2*): 1. What is the north star for corporate transformation? 2. What does the current transformation initiative portfolio look like? 3. How to design it for the future? Let us guide you through these three phases step by step.

Figure 2: How to design a corporate transformation portfolio



1. What is the north star for corporate transformation?

“If you do not know which port you are sailing to, no wind is favorable.”
Seneca

A north star is a mental representation of where the corporation is heading in the future. While they are often seen in the corporate world as mental representations of what the corporation will be like at a future point in time, our experience shows that more effective north stars focus not on the corporation itself but on the environment in which it operates. You may wonder what exactly the difference is. Whereas a self-centered vision for a corporation might be 'We want to be number one by 2030,' an environment-centered vision could be 'We have spearheaded mobility transformation in Europe by 2030.' The latter is often perceived as more inspiring.

The reason a north star for transformation is so important is because transformation requires lots of energy and resources. Effective corporate leaders dedicate extensive time and energy to delve into, mold, and align on a shared goal that resonates with members both collectively and personally. True north stars ignite the drive of corporations to achieve it and provide an orientation to choose among the many means available.

Identifying such a goal, of course, is neither automatic nor easy. Yet, research has shown the characteristics of north stars that leaders need to know to recognize effective ones. Effective north stars capture deep inner commitment because they are tied to something about which people at the corporation care deeply. Achieving the north star requires supreme effort and a passionate commitment. North stars depend on complete honesty and authenticity, as achieving them cannot be accomplished by being artificial or false. And north stars enhance positive human relationships, as achieving them alone is impossible; they require support and interdependence with others (Whetten & Cameron, 2011).

As a thought experiment, the leadership team may consider what newspaper headline they would like to see about their corporation a decade from now. Simply discussing this question within the leadership team can provide valuable insights into the team's aspirations. By identifying commonalities and reconciling conflicting ideas, leaders can create a foundation for developing an inspiring and shared north star.

2. What does the corporate transformation portfolio look like?

To evaluate the current transformation initiatives, we recommend using a portfolio approach. Portfolio approaches to strategy making involve analyzing and designing a portfolio of strategic initiatives. Utilizing a portfolio approach to transformation initiatives is particularly beneficial as it offers a systematic overview of existing initiatives and provides guidance on how to shape them for the future.

Using the Four-I-Framework, which outlines four general transformation strategies (that is, incubation, intrapreneurship, involvement, and investment), leaders need to identify the transformation initiatives in which their corporation is currently investing. These initiatives may include various endeavors such as incubation initiatives across the global organization, significant intrapreneurial efforts, major corporate startup clienting initiatives, or corporate venture capital investment activities.

Subsequently, leaders need to evaluate each of these initiatives regarding three aspects: investment level, their importance, and their satisfaction with them. Begin by reviewing the past year and assessing the investment made into each initiative (e.g., financial investments, human resources, time). Next, rate all transformation initiatives on a scale from 0 (very low) to 10 (very high) based on their importance for reaching the north star. Next, rate the satisfaction with the performance of each initiative, using the same scale (Strack, Dyrchs, Bailey, 2024).

Finally, create a corporate transformation portfolio, which is a two-by-two matrix depicting all transformation initiatives. On the y-axis, indicate the importance of each transformation initiative, and on the x-axis, denote how satisfactory the initiative works. Plot each initiative with a bubble, sizing the bubble proportional to the percentage of yearly investment into it. This will give leaders a comprehensive, yet concise, overview of their corporate transformation portfolio (Strack, Dyrchs, Bailey, 2024).

3. How to design the corporate transformation portfolio for the future?

Armed with a corporate transformation north star and corporate transformation portfolio, leaders are now prepared to design their corporate transformation portfolio strategy.

First, leaders can enhance their existing corporate transformation portfolio by improving it. A good starting point for enhancing existing transformation initiatives is to begin with those in the top-left corner. These initiatives are very important, yet they may not receive enough focus to fully capitalize on them. Initiatives in the top-right quadrant, which are important and well-performing, also warrant attention: leaders want to continue dedicating considerable time and energy to their most crucial and best-working initiatives while investing less in those that are less important (bottom left and right) (Strack, Dyrchs, Bailey, 2024).

Next, leaders should consider the entire portfolio and ask: Does the current transformation initiative portfolio align with the transformation north star? Does it move the corporation closer to achieving the goal to which it is committed? If not, leaders may need to eliminate, complement, or replace transformation initiatives. Ideas for transformation initiatives can be created from within the firm, or they can stem from benchmarking analysis to glean insights from other companies (Strack, Dyrchs, Bailey, 2024).

Yet, merely analyzing and designing the transformation portfolio will not bring about change. From the extensive list of potential changes and actions to the corporate

transformation portfolio select several that will most effectively propel the corporation toward a successful transformation and commit to them.

Conclusion

No corporate leader desires to be responsible for corporate failure. However, as the examples of Kodak, Nokia, and Polaroid illustrate, effectively transforming corporations is notoriously challenging. We hope that the Four-I-Framework, along with the step-by-step process to analyze, design and implement a corporate transformation portfolio, proves helpful in successfully leading corporate transformation. And circling back to the initial quote – now in times of multiple crises – it may just be the right moment to overtake fifteen

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